



# WEINLANDER FITZHUGH

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& CONSULTANTS

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CITY OF HARRISON  
HARRISON, MICHIGAN

FINANCIAL STATEMENTS  
DECEMBER 31, 2005

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**RSM McGladrey Network**

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## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>CITY OF HARRISON</b>	County <b>CLARE</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>1/27/06</b>	Date Accountant Report Submitted to State: <i>April 25, 2006</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>WEINLANDER FITZHUGH</b>			
Street Address <b>601 BEECH STREET</b>		City <b>CLARE</b>	State <b>MI</b>
		ZIP <b>48617</b>	
Accountant Signature <i>Shannon Lurton CPA</i>			Date <i>4-25-06</i>

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## INDEPENDENT AUDITORS' REPORT

January 27, 2006

Members of the City Council  
City of Harrison  
Harrison, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Harrison, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the index. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type-activities, each major fund and the aggregate remaining fund information of the City of Harrison as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

Members of the City Council  
City of Harrison  
January 27, 2006  
Page 2

In accordance with *Government Auditing Standards*, we have also issued a report dated January 27, 2006 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

## **Required Supplemental Information**

The management's discussion and analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

## **Other Supplemental Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrison's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Weinlander Fitzhugh*

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005

Our discussion and analysis of the City of Harrison's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2005.

**Financial Highlights**

The General Fund reported an increase in fund balance of \$18,000 resulting in a balance of \$604,000 at the end of the year. Ending fund balance for the City's other major funds was \$65,000 for the Library, \$26,000 for the Local Streets Fund, and \$524,000 for the Local Improvement Fund.

**Using this Annual Financial Report**

This annual financial report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City of Harrison financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Government's operations in more detail than the Government-wide financial statements by providing information about the Government's most significant funds – the General Fund, Library Operating Fund, Local Streets Fund and Local Improvement Fund, with all other funds presented in one column as nonmajor funds. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail for major enterprise funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Government acts solely as an agent or trustee. The following summarizes the presentation included in this annual financial report.

**Management's Discussion and Analysis (MD&A) (Required Supplemental Information)**

**Basic Financial Statements**

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements

**Budgetary Information for the Major Governmental Funds (Required Supplemental Information)**

**Other Supplemental Information**

**Reporting the City as a Whole**

*The Statement of Net Assets and Statement of Activities*

One of the most important questions asked about the City's finances is, "Is the City better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005

These two statements report the City's net assets as a way to measure the City's financial position. The change in net assets provides the reader a tool to assist in determining whether the City's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as property tax base and facility conditions in arriving at their conclusion regarding the overall health of the City.

**Reporting the City's Most Significant Funds**

*Fund Financial Statements*

The City's fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. Other funds are established to help it control and manage money for particular purposes or to meet legal responsibilities for using certain taxes, grants, and other sources of revenue. The City's three types of funds, governmental, proprietary and fiduciary, use different accounting approaches as further described in the notes to the financial statements.

*Governmental Funds*

Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. The relationship (or differences) between Governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and Governmental funds is reconciled in the basic financial statements.

*Proprietary Funds*

These funds are reported in the fund financial statements and generally report services for which the Government charges customers a fee. Enterprise funds essentially encompass the same functions reported as business-type activities in the government-wide statements. Services are provided to customers external to the Government organization such as the water and sewer utilities and garbage collection.



**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2005**

*Fiduciary Funds*

The City is the trustee, or fiduciary, for tax collections. All of the City's fiduciary activities are reported in separate Statements of Net Assets. We excluded these activities from the City's other financial statements because the assets cannot be utilized by the City to finance its operations.

**Government-wide Financial Analysis**

**Financial position** - The statement of net assets provides the perspective of the City as a whole. Exhibit A provides a summary of the City's net assets as of December 31, 2005 and 2004.

<b><u>Exhibit A</u></b>	<b><u>Governmental Activities</u></b>		<b><u>Business-type Activities</u></b>		<b><u>Total</u></b>	
	<b>(In thousands)</b>		<b>(In thousands)</b>		<b>(In thousands)</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<b>Assets</b>						
Current and other assets	\$ 1,570	\$ 1,757	\$ 1,535	\$ 1,393	\$ 3,105	\$ 3,150
Capital assets - net of accumulated depreciation	<u>2,163</u>	<u>2,150</u>	<u>14,517</u>	<u>14,850</u>	<u>16,680</u>	<u>17,000</u>
Total Assets	<u>3,733</u>	<u>3,907</u>	<u>16,052</u>	<u>16,243</u>	<u>19,785</u>	<u>20,150</u>
<b>Liabilities</b>						
Current liabilities	24	23	80	78	104	101
Long-term liabilities	<u>744</u>	<u>759</u>	<u>5,109</u>	<u>5,186</u>	<u>5,853</u>	<u>5,945</u>
Total Liabilities	<u>768</u>	<u>782</u>	<u>5,189</u>	<u>5,264</u>	<u>5,957</u>	<u>6,046</u>
<b>Net Assets</b>						
Invested in property and equipment -net of related debt	1,401	1,374	9,331	9,590	10,732	10,964
Restricted	0	0	485	485	485	485
Unrestricted	<u>1,564</u>	<u>1,751</u>	<u>1,047</u>	<u>904</u>	<u>2,611</u>	<u>2,655</u>
Total Net Assets	<u>\$ 2,965</u>	<u>\$ 3,125</u>	<u>\$ 10,863</u>	<u>\$ 10,979</u>	<u>\$ 13,828</u>	<u>\$ 14,104</u>

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005

Exhibit A , on the previous page, focuses on net assets. The City's total net assets were approximately \$14 million at December 31, 2005. Capital assets, net of related debt, totaling approximately \$11 million compares the original costs, less depreciation of the City's capital assets to long-term debt used to finance the acquisition of those assets. Restricted net assets of approximately \$500 are reported separately to show legal constraints from debt requirements and legislation that limit the City's ability to use those net assets for day-to-day operations.

The \$2.6 million of unrestricted net assets of governmental and business-type activities represents the *accumulated* results of all past years' operations. The operating results of the General, Special Revenue and Enterprise Funds will have a significant impact on the change in unrestricted net assets from year to year.

**Results of operations** - The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for the year ended December 31, 2005. Exhibit B provides a summary of the City's operations for 2004 and 2005.

**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2005**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	(In thousands)		(In thousands)		(In thousands)	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b><u>Exhibit B</u></b>						
<b>Revenue</b>						
Program revenue:						
Charges for services	\$ 377	\$ 426	\$ 881	\$ 893	\$ 1,258	\$ 1,319
Grants and contributions	5	0	36	190	41	190
General revenue:						
Property taxes	692	609	0	0	692	609
State revenue sharing	370	379	0	0	370	379
Interest and investment earnings	38	12	28	14	66	26
Transfers in (out)	(20)	0	20	28	0	28
Other	138	132	15	0	153	132
Total revenue	<u>1,600</u>	<u>1,558</u>	<u>980</u>	<u>1,125</u>	<u>2,580</u>	<u>\$ 2,683</u>
<b>Function/Program Expenses</b>						
General government	302	268	0	0	302	268
Public safety	383	353	0	0	383	353
Public service	372	423	0	0	372	423
Highways, streets and bridges	386	191	0	0	386	191
Recreation and culture	281	256	0	0	281	256
Sewer	0	0	652	657	652	657
Water	0	0	337	374	337	374
Garbage and rubbish	0	0	106	103	106	103
Other	0	3	0	0	0	3
Interest on long-term debt	36	36	0	0	36	36
Total expenses	<u>1,760</u>	<u>1,530</u>	<u>1,095</u>	<u>1,134</u>	<u>2,855</u>	<u>2,664</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ (160)</u>	<u>\$ 28</u>	<u>\$ (115)</u>	<u>\$ (9)</u>	<u>\$ (275)</u>	<u>\$ 19</u>

**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2005**

As reported in the statement of activities, the cost of all of our *governmental and business-type* activities this year was \$2.6 million. Certain activities were partially funded by \$1.3 million from those who benefited from the programs, or by the other Cities and organizations that subsidized certain programs with operating grants and contributions of \$41,000. We paid for the remaining "public benefit" portion of our governmental and business-type activities with approximately \$692,000 in taxes, \$370,000 in State revenue sharing, and with our other revenues, such as interest and miscellaneous revenues.

The City experienced a decrease in net assets of \$84,000 mainly due to actual expenditures being more than anticipated. There were no significant revenue increases this year. The decrease in net assets differs from the change in fund balance and a reconciliation appears in the financial statements.

**The City's Funds**

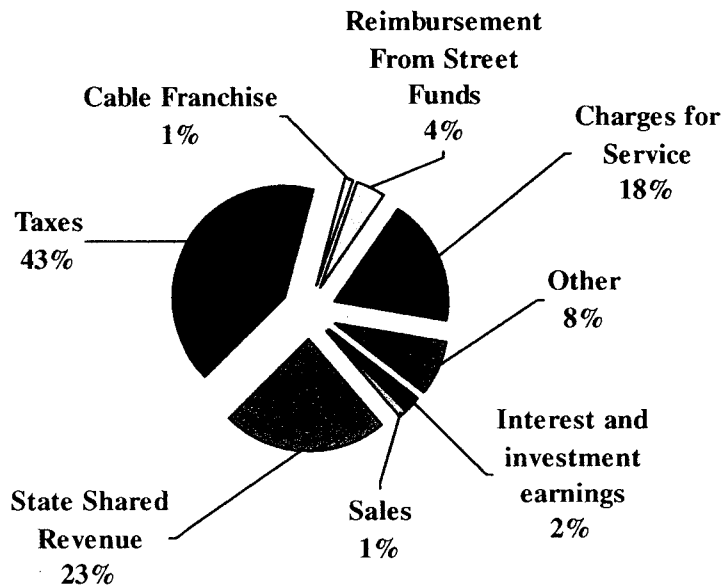
The City uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the City is being accountable for the resources taxpayers and others provide to it and may provide more insight into the City's overall financial health.

The City's Governmental funds reported a combined fund balance of \$1.56 million which is down from last year's total of \$1.75 million. The schedule below details the fund balance (in thousands) and the total change in fund balances as of December 31, 2005 and 2004.

	Fund Balance December 31, 2005 (in thousands)	Fund Balance December 31, 2004 (in thousands)	Increase (Decrease) (in thousands)
General	\$ 604,000	\$ 587,000	\$ 17,000
Major Streets	153,000	160,000	(7,000)
Local Streets	25,000	92,000	(67,000)
Budd Lake	68,000	55,000	13,000
Building Authority	4,000	5,000	(1,000)
Library Operating	65,000	69,000	(4,000)
Fire	120,000	10,000	110,000
Local Improvement	524,000	773,000	(249,000)
Total	<u>\$ 1,563,000</u>	<u>\$ 1,751,000</u>	<u>\$ (188,000)</u>

**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2005**

The graph below details the major sources of the City's governmental fund revenue.



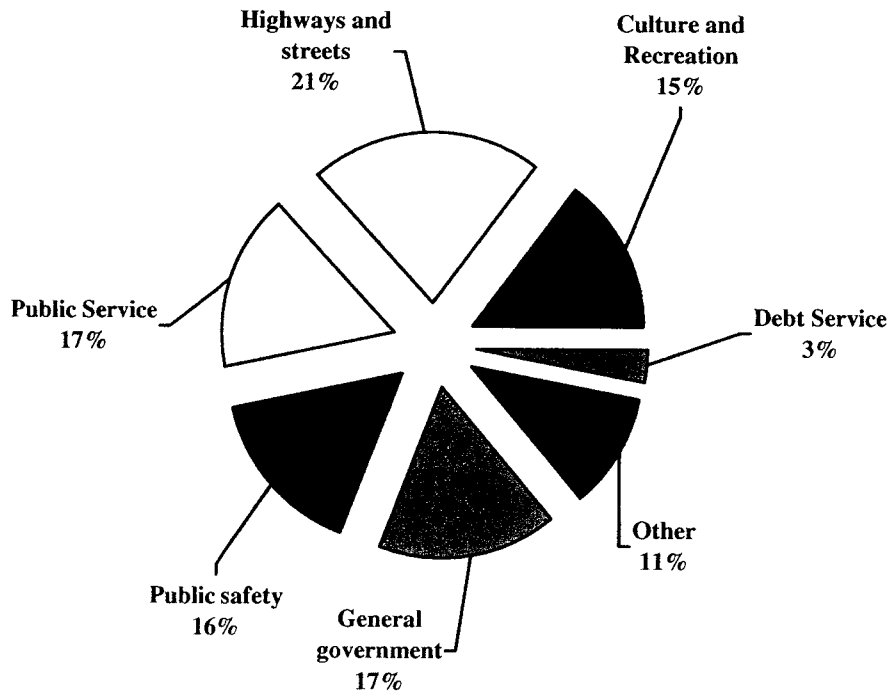
The chart below compares current year revenues with last year.

<i>Revenues by Function</i>	2005	2004
State shared revenue	\$ 370,000	\$ 379,000
Taxes	692,000	609,000
Cable franchise	11,000	15,000
Reimbursements from street funds	69,000	81,000
Charges for services	295,000	320,000
Other	144,000	132,000
Interest and investment earnings	38,000	13,000
Sales	2,000	10,000
Total	<u>\$ 1,621,000</u>	<u>\$ 1,559,000</u>

Revenues are up \$62,000 due to higher interest rate and more tax revenue due to a higher tax millage and a rise in property values.

**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2005**

The graph below details the major expenditure categories of the City.



The chart below compares current year expenditures with last year.

<i>Expenditures by Function</i>	2005	2004
General government	\$ 297,000	\$ 265,000
Public safety	285,000	270,000
Public service	302,000	323,000
Highways and streets	386,000	183,000
Recreation and culture	266,000	241,000
Other	0	2,000
Debt service	50,000	49,000
Capital outlay	202,000	182,000
<b>Total</b>	<b>\$ 1,788,000</b>	<b>\$ 1,515,000</b>

Expenditures are up \$273,000 from the prior year due to the standard wage increase, the paving of City streets, acquiring a building and land downtown and also a leaf vacuum and an increase in gas and electric costs.

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005

**Business-Type Activities** -The City's Proprietary Funds shows the activity of the Water Fund, Sewer Fund and Garbage Collection Fund. The Water Fund reported net assets of \$3 million and a net increase in net assets of \$4,000. The increase in net assets is mainly due to the decrease in interest expenses and fees of \$40,000 and an increase in interest income of \$7,700. These changes were offset by a decrease in grant and contribution revenue of \$49,000. The Sewer Fund reported net assets of \$7.8 million and a net decrease of \$122,000. The decrease in net assets is mainly due to a decrease in operating revenue of \$7,000 and a decrease in nonoperating revenue of \$93,000. The Garbage Collection Fund reported net assets of \$23,000 and a net increase of \$2,000. The net increase in net assets is mainly due to the combination of an increase in charges for services of \$4,000 and an increase in contractual services of \$3,000.

CITY OF HARRISON  
Management's Discussion and Analysis  
For the Year Ended December 31, 2005

**General Fund Budgetary Highlights**

Over the course of the year, the City revises its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the City's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

There were no changes to the beginning revenue budget. The actual revenues were greater than budgeted because State Revenue Sharing cuts were not as great as anticipated and other planned State Revenue Sharing cuts were restored. Tax revenue was also higher than anticipated due to higher taxable values within the City. The City also raised the millage rate during the year. Also, there was an increase in labor and equipment funds paid to the General Fund from the Major and Local Street Funds because of higher than normal winter maintenance activities.

Budget expenses were increased primarily due to a reclassification of contingency funds to fund balance. The actual expenses were less than anticipated primarily due to delaying certain projects until next year. The City also planned to have extra personnel costs in public service. Also, maintenance and repair costs for city buildings, grounds and equipment were less than anticipated. Costs for utilities and gas for vehicles was also less than originally anticipated.



**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2005**

**Capital Assets**

At December 31, 2005, the City had \$17 million invested in a broad range of capital assets, including land, buildings, furniture, equipment and sewer and water systems. This amount represents a net decrease (including additions and disposals) of approximately \$320,000 or 2%, from last year. The amounts below are shown in thousands.

	Governmental Activities (in thousands)		Business-Type Activities (in thousands)		Totals (in thousands)	
	2005	2004	2005	2004	2005	2004
Land	\$ 356	\$ 326	\$ 317	\$ 317	\$ 673	\$ 643
Construction in progress	0	0	12	0	12	0
Buildings and improvements	1,277	1,206	3,887	3,871	5,164	5,077
Land improvements	41	41			41	41
Vehicles	938	837	0	0	938	837
Machinery and equipment	753	753	1,003	1,003	1,756	1,756
Water system	0	0	4,203	4,184	4,203	4,184
Sewer system	0	0	8,186	8,170	8,186	8,170
 Total capital assets	 3,365	 3,163	 17,608	 17,545	 20,973	 20,708
 Less accumulated depreciation	 1,202	 1,013	 3,091	 2,695	 4,293	 3,708
 Net capital assets	 <u>\$ 2,163</u>	 <u>\$ 2,150</u>	 <u>\$ 14,517</u>	 <u>\$ 14,850</u>	 <u>\$ 16,680</u>	 <u>\$ 17,000</u>

This year's additions of \$265,000 included a leaf vacuum truck, land and building next to the library, water and sewer systems.

In 2006, the City plans on acquiring a dump-plow truck and a tractor mower for the sewer department. The City is also planning major improvements to streets and sidewalk in 2006.

**CITY OF HARRISON**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2005**

**Debt**

At the end of this year, the City had \$5.9 million in long-term debt outstanding versus \$6 million in the previous year – a change of 1.5%. The City's debt includes revenue bonds for its sewer and water systems and general obligation bonds for its fire hall. This debt is summarized as follows:

	<u>2005</u>	<u>2004</u>
	(in thousands)	(in thousands)
Revenue Bonds	\$ 5,186	\$ 5,261
General Obligation Bonds	759	773
	<u>\$ 5,945</u>	<u>\$ 6,034</u>

**Factors Expected to Have an Effect on Future Operations**

We expect to see a decline in state shared revenue next year as the State of Michigan continues to face challenges in balancing its budget. We will need to adjust City expenditures in response to any revenue shortfall.

**Contacting The City's Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City Clerk's Office at PO Box 378, Harrison, Michigan 48625.

CITY OF HARRISON  
Statement of Net Assets  
December 31, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and investments	\$ 1,470,693	\$ 1,512,276	\$ 2,982,969
Receivables (net)	93,504	22,659	116,163
Prepaid expenses	4,816	0	4,816
Capital assets - less accumulated depreciation of \$4,293,395	<u>2,163,103</u>	<u>14,517,004</u>	<u>16,680,107</u>
Total Assets	<u>3,732,116</u>	<u>16,051,939</u>	<u>19,784,055</u>
<u>Liabilities</u>			
Accounts payable	60	0	60
Customers' deposits	5,000	2,590	7,590
Interest payable	2,957	0	2,957
Noncurrent liabilities:			
Due within one year	15,000	77,000	92,000
Due in more than one year	<u>744,000</u>	<u>5,109,000</u>	<u>5,853,000</u>
Total Liabilities	<u>767,017</u>	<u>5,188,590</u>	<u>5,955,607</u>
<u>Net Assets</u>			
Invested in capital assets net of related debt	1,401,146	9,331,004	10,732,150
Restricted for other purposes	0	485,500	485,500
Unrestricted	<u>1,563,953</u>	<u>1,046,845</u>	<u>2,610,798</u>
Total Net Assets	<u>\$ 2,965,099</u>	<u>\$ 10,863,349</u>	<u>\$ 13,828,448</u>

See accompanying notes to financial statements

**CITY OF HARRISON**  
**Statement of Activities**  
**For the Year Ended December 31, 2005**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Primary government:</b>						
General government	\$ 301,932	\$ 91,857	\$ 0	\$ (210,075)	\$ 0	\$ (210,075)
Public safety	383,069	236,621	5,240	(141,208)	0	(141,208)
Public service	372,174	0	0	(372,174)	0	(372,174)
Highways and streets	385,920	0	0	(385,920)	0	(385,920)
Recreation and cultural	281,744	48,843	0	(232,901)	0	(232,901)
Interest on long-term debt	35,720	0	0	(35,720)	0	(35,720)
Total governmental activities	1,760,559	377,321	5,240	(1,377,998)	0	(1,377,998)
<b>Business-type activities:</b>						
Sewer	652,311	466,490	16,519	0	(169,302)	(169,302)
Water	337,403	307,555	19,160	0	(10,688)	(10,688)
Garbage and collection	105,560	107,336	0	0	1,776	1,776
Total business-type activities	1,095,274	881,381	35,679	0	(178,214)	(178,214)
Total primary government	\$ 2,855,833	\$ 1,258,702	\$ 40,919	(1,377,998)	(178,214)	(1,556,212)
<b>General Revenues:</b>						
Property taxes				692,133	0	692,133
State shared revenues				369,872	0	369,872
Interest income				37,967	27,525	65,492
Transfers				(20,266)	20,266	0
Miscellaneous				138,427	15,106	153,533
Total general revenues				1,218,133	62,897	1,281,030
Change in net assets				(159,865)	(115,317)	(275,182)
Net assets - beginning of year				3,124,964	10,978,666	14,103,630
Net assets - end of year				\$ 2,965,099	\$ 10,863,349	\$ 13,828,448

See accompanying notes to financial statements

CITY OF HARRISON  
Governmental Funds  
Balance Sheet  
December 31, 2005

	General Fund	Library Operating Fund	Local Streets Fund	Local Improvement Fund	Other Nonmajor Governmental Funds	Total
<u>Assets</u>						
Cash and investments	\$ 529,394	\$ 66,252	\$ 25,753	\$ 523,919	\$ 325,375	\$ 1,470,693
Receivables - net	74,003	222	0	0	19,279	93,504
Due from other funds	1,341	0	0	0	0	1,341
Prepaid expenditures and advances	0	4,816	0	0	0	4,816
Total Assets	\$ 604,738	\$ 71,290	\$ 25,753	\$ 523,919	\$ 344,654	\$ 1,570,354
<u>Liabilities and Fund Balance</u>						
<u>Liabilities</u>						
Accrued expenses	\$ 60	\$ 0	\$ 0	\$ 0	\$ 0	\$ 60
Due to other funds	0	1,341	0	0	0	1,341
Deferred revenue	0	5,000	0	0	0	5,000
Total liabilities	60	6,341	0	0	0	6,401
<u>Fund Balance</u>						
Unreserved	604,678	64,949	25,753	523,919	344,654	1,563,953
Total fund balance	604,678	64,949	25,753	523,919	344,654	1,563,953
Total Liabilities and Fund Balance	\$ 604,738	\$ 71,290	\$ 25,753	\$ 523,919	\$ 344,654	\$ 1,570,354

See accompanying notes to financial statements

CITY OF HARRISON  
Reconciliation of Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
December 31, 2005

Total fund balance - governmental funds	\$ 1,563,953
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Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the funds:

Cost of the capital assets	3,364,955
Accumulated depreciation	(1,201,852)

Accrued interest payable is not included as a liability in governmental activities.	(2,957)
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Long-term liabilities are not due and payable in the current  
period and are not reported in the funds:

Bonds payable	<u>(759,000)</u>
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Total net assets - governmental activities	<u><u>\$ 2,965,099</u></u>
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See accompanying notes to financial statements

CITY OF HARRISON  
Governmental Funds  
Statement of Revenues, Expenditures and  
Changes in Fund Balance  
For the Year Ended December 31, 2005

	General Fund	Library Operating Fund	Local Streets Fund	Local Improvement Fund	Other Nonmajor Governmental Funds	Total
<u>Revenues</u>						
State shared revenue	\$ 192,916	\$ 11,666	\$ 58,439	\$ 0	\$ 106,851	\$ 369,872
Taxes and penalties	651,433	0	0	0	40,700	692,133
Cable franchise	10,842	0	0	0	0	10,842
Reimbursements from street funds	68,669	0	0	0	0	68,669
Charges for services	9,746	48,843	0	0	236,621	295,210
Miscellaneous	6,802	86,129	6,358	517	43,861	143,667
Interest	12,988	2,444	1,161	13,399	7,975	37,967
Sales	2,600	0	0	0	0	2,600
Total revenues	955,996	149,082	65,958	13,916	436,008	1,620,960
<u>Expenditures</u>						
Current:						
General government	297,248	0	0	0	0	297,248
Public safety	186,717	0	0	0	98,491	285,208
Public service	175,639	0	0	97,076	28,965	301,680
Highways and streets	0	0	288,912	0	97,008	385,920
Recreation and cultural	69,264	196,512	0	0	0	265,776
Capital outlay	0	0	0	201,835	0	201,835
Debt service:						
Principal	0	0	0	0	14,000	14,000
Interest	0	0	0	0	35,751	35,751
Total expenditures	728,868	196,512	288,912	298,911	274,215	1,787,418
Excess (deficiency) of revenues over expenditures	227,128	(47,430)	(222,954)	(284,995)	161,793	(166,458)
<u>Other Financing Sources (Uses)</u>						
Transfers in	0	42,993	156,713	166,000	49,751	415,457
Transfers (out)	(208,993)	0	0	(130,000)	(96,730)	(435,723)
Total other financing sources (uses)	(208,993)	42,993	156,713	36,000	(46,979)	(20,266)
Excess (deficiency) of revenues and other sources over expenditures and other financing uses	18,135	(4,437)	(66,241)	(248,995)	114,814	(186,724)
Fund balance - beginning of year	586,543		91,994	772,914	229,840	1,750,677
Fund balance - end of year	\$ 604,678	\$ 64,949	\$ 25,753	\$ 523,919	\$ 344,654	\$ 1,563,953

See accompanying notes to financial statements

CITY OF HARRISON  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balance of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2005

Net change in fund balance - total governmental funds	\$ (186,724)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	
Depreciation expense	(189,007)
Capital outlay	201,835
Interest expense is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid.	31
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities, where it reduces long-term debt.	<u>14,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (159,865)</u></u>

See accompanying notes to financial statements



CITY OF HARRISON  
Proprietary Fund  
Statement of Net Assets  
December 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Assets</u>				
Current assets:				
Cash and investments	\$ 697,687	\$ 797,913	\$ 16,676	\$ 1,512,276
Accounts receivable	876	15,231	6,552	22,659
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	698,563	813,144	23,228	1,534,935
Capital assets less accumulated depreciation of \$3,091,543	4,372,599	10,144,405	0	14,517,004
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$5,071,162</u>	<u>\$10,957,549</u>	<u>\$ 23,228</u>	<u>\$ 16,051,939</u>
<u>Liabilities</u>				
Current liabilities:				
Customer deposits	\$ 2,590	\$ 0	\$ 0	\$ 2,590
Current portion of bonds payable	34,000	43,000	0	77,000
Total current liabilities	36,590	43,000	0	79,590
	<hr/>	<hr/>	<hr/>	<hr/>
Bonds payable	2,001,000	3,108,000	0	5,109,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>2,037,590</u>	<u>3,151,000</u>	<u>0</u>	<u>5,188,590</u>
<u>Net Assets</u>				
Invested in capital assets - net of related debt	2,337,599	6,993,405	0	9,331,004
Restricted	197,500	288,000	0	485,500
Unrestricted	498,473	525,144	23,228	1,046,845
Total Net Assets	<u>\$3,033,572</u>	<u>\$ 7,806,549</u>	<u>\$ 23,228</u>	<u>\$ 10,863,349</u>

See accompanying notes to financial statements

CITY OF HARRISON  
Proprietary Fund  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended December 31, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
<u>Operating Revenues</u>				
Charges for services	\$ 277,619	\$ 463,595	\$ 105,428	\$ 846,642
Miscellaneous	5,804	2,895	1,908	10,607
Total operating revenues	<u>283,423</u>	<u>466,490</u>	<u>107,336</u>	<u>857,249</u>
<u>Operating Expenses</u>				
Wages and salaries	51,609	87,225	0	138,834
Fringe benefits	22,441	56,939	0	79,380
Operating expenses	7,809	12,538	0	20,347
Contractual services	6,807	13,189	105,194	125,190
Professional development	947	0	0	947
Building and equipment maintenance	15,383	14,453	0	29,836
Utilities	16,267	47,758	0	64,025
Insurance	6,205	8,884	0	15,089
Depreciation	141,424	255,323	0	396,747
Other expenses	12,869	6,132	366	19,367
Total operating expenses	<u>281,761</u>	<u>502,441</u>	<u>105,560</u>	<u>889,762</u>
Operating income (loss)	<u>1,662</u>	<u>(35,951)</u>	<u>1,776</u>	<u>(32,513)</u>
<u>Nonoperating Revenues (Expenses)</u>				
Rental income	24,132	0	0	24,132
Interest income	14,290	13,235	0	27,525
Donation	19,160	16,519	0	35,679
Miscellaneous	840	14,266	0	15,106
Interest expenses and fees	(55,642)	(149,870)	0	(205,512)
Transfers in	0	20,266	0	20,266
Total nonoperating revenues (expenses)	<u>2,780</u>	<u>(85,584)</u>	<u>0</u>	<u>(82,804)</u>
Change in net assets	4,442	(121,535)	1,776	(115,317)
Net assets - beginning of year	<u>3,029,130</u>	<u>7,928,084</u>	<u>21,452</u>	<u>10,978,666</u>
Net assets - end of year	<u>\$3,033,572</u>	<u>\$ 7,806,549</u>	<u>\$ 23,228</u>	<u>\$ 10,863,349</u>

See accompanying notes to financial statements

CITY OF HARRISON  
Proprietary Fund  
Statement of Cash Flows  
For the Year Ended December 31, 2005

	Water Fund	Sewer Fund	Garbage Collection Fund	Total
<u>Cash flows from operating activities</u>				
Cash received from customers	\$ 284,978	\$ 470,843	\$ 107,820	\$ 863,641
Cash payments to suppliers for goods and services	(67,187)	(102,954)	(105,560)	(275,701)
Cash payments to employees for services	(74,050)	(144,164)	0	(218,214)
Net cash provided by operating activities	<u>143,741</u>	<u>223,725</u>	<u>2,260</u>	<u>369,726</u>
<u>Cash flows from capital and related financing activities</u>				
Operating transfers in	0	20,266	0	20,266
Acquisition and construction of capital assets	0	(27,584)	0	(27,584)
Principal paid on long-term debt	(33,000)	(42,000)	0	(75,000)
Interest paid on long-term debt	(55,642)	(149,870)	0	(205,512)
Net cash (used) by capital and related financing activities	<u>(88,642)</u>	<u>(199,188)</u>	<u>0</u>	<u>(287,830)</u>
<u>Cash flows from noncapital and related financing activities</u>				
Rental income	<u>24,972</u>	<u>14,266</u>	<u>0</u>	<u>39,238</u>
<u>Cash flows from investing activities</u>				
Interest income	<u>14,290</u>	<u>13,235</u>	<u>0</u>	<u>27,525</u>
Net increase in cash and investments	94,361	52,038	2,260	148,659
Cash and investments - beginning of year	<u>603,326</u>	<u>745,875</u>	<u>14,416</u>	<u>1,363,617</u>
Cash and investments - end of year	<u><u>\$ 697,687</u></u>	<u><u>\$ 797,913</u></u>	<u><u>\$ 16,676</u></u>	<u><u>\$ 1,512,276</u></u>
<u>Reconciliation of Cash Flows from Operations</u>				
Operating income (loss)	\$ 1,662	\$ (35,951)	\$ 1,776	\$ (32,513)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	141,424	255,323	0	396,747
Changes in operating assets and liabilities:				
Accounts receivable	1,555	4,353	484	6,392
Customer deposits	(900)	0	0	(900)
Net cash provided by operating activities	<u><u>\$ 143,741</u></u>	<u><u>\$ 223,725</u></u>	<u><u>\$ 2,260</u></u>	<u><u>\$ 369,726</u></u>

See accompanying notes to financial statements.

CITY OF HARRISON  
Fiduciary Fund  
Statement of Net Assets  
December 31, 2005

Agency Fund Type  
(Property Tax  
Collection Fund)

Assets

Cash

\$ 85,778

Liabilities

Undistributed taxes

\$ 85,778

See accompanying notes to financial statements

**CITY OF HARRISON**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2005**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Harrison conform to U.S. generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Harrison:

**Reporting Entity**

The City of Harrison is governed by an elected council with a city clerk overseeing daily operations. The accompanying financial statements present the financial position and results of operations for the City.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The nonmajor funds are presented in a single column in the fund financial statements and are detailed in the other supplemental information. On the proprietary fund statements, the garbage collection fund is a nonmajor fund.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the City has elected for proprietary funds not to apply Financial Accounting Standards Board statements issued after November 30, 1989.

The City reports the following major governmental funds:

**General Fund** - The General Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenues.

**Library Operating Fund** – The Library Operating Fund is used to maintain and update the library facilities.

**Local Streets Fund** – The Local Streets Fund is used to maintain and update local streets of the City.

**Local Improvement Fund** – The Local Improvement Fund is used to record transactions relative to the local improvement services provided by the City.

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The City reports the following major proprietary funds:

**Water Fund** – The Water Fund accounts for the activities of the water distribution system.

**Sewer Fund** – The Sewer Fund accounts for the activities of the sewage collection system.

**Assets, Liabilities, and Net Assets or Equity**

Cash and Investments – Cash and investments are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as “internal balances”.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Restricted Cash - \$485,500 of the Enterprise Fund's cash and investments is restricted for required bond reserves (Note 11).

Capital Assets – Capital assets, which include land, buildings, equipment and infrastructure assets are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 5 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add value or materially extend asset lives are not capitalized.

Land, building, vehicles, equipment and infrastructure are depreciated using the straight-line method over the following useful lives:

Water system	25 to 30 Years
Sewer system	50 Years
Buildings and improvements	20 to 40 Years
Vehicles	5 to 7 Years
Machinery and equipment	3 to 12 Years

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Long-term Obligations – In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 – BUDGETS**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of governments prior to the expenditure of monies in a fiscal year.

The City of Harrison follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The City Clerk submits to the City Council a proposed budget prior to December 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended, by the City Council throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the fund level, and are adopted on a basis consistent with the accounting policies used in preparation of the financial statements.



CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 2 – BUDGETS (CONTINUED)**

4. Appropriations lapse at year-end. These appropriations are re-established at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board) for the General Fund, Library Operating Fund, Local Streets Fund and Local Improvement Fund are presented as Required Supplemental Information.

Excess of Expenditures Over Appropriations in Budgeted Funds – During the year, the City of Harrison incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund/Function</u>	<u>Total Appropriation</u>	<u>Amount of Expenditure</u>	<u>Budget Variance</u>
Library Fund: Expenditures	\$ 183,231	\$ 196,512	\$ 13,281

**NOTE 3 – DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rates within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The City's deposits are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

Governmental activities	\$ 1,470,693
Business-type activities	1,512,276
Fiduciary funds	<u>85,778</u>
Total	<u>\$ 3,068,747</u>

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)**

The breakdown of deposits is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	\$ 3,068,622
Petty cash and cash on hand	<u>125</u>
Total	<u>\$ 3,068,747</u>

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of December 31, 2005, \$2,568,747 of the City's bank balance of \$3,068,622 was exposed to custodial credit risk because it was uninsured and uncollateralized with securities held by the pledging financial institution's agent, but not in the City's name.

The City's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

**CITY OF HARRISON**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2005**

**NOTE 4 - CAPITAL ASSETS**

	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
<b><u>Governmental activities</u></b>				
Capital assets not being depreciated:				
Land	\$ 326,202	\$ 30,000	\$ 0	\$ 356,202
Capital assets being depreciated:				
Buildings and improvements	1,206,484	70,235	0	1,276,719
Land improvements	40,800	0	0	40,800
Vehicles	836,609	101,600	0	938,209
Machinery and equipment	753,025	0	0	753,025
Subtotal	2,836,918	171,835	0	3,008,753
Less accumulated depreciation for:				
Buildings and improvements	188,102	28,865	0	216,967
Land improvements	28,641	7,742	0	36,383
Vehicles	345,566	75,690	0	421,256
Machinery and equipment	450,536	76,710	0	527,246
Subtotal	1,012,845	189,007	0	1,201,852
Net capital assets being depreciated	1,824,073	(17,172)	0	1,806,901
Governmental activities, total capital assets - net of depreciation	\$ 2,150,275	\$ 12,828	\$ 0	\$ 2,163,103
<b><u>Business-type activities</u></b>				
Capital assets not being depreciated:				
Land	\$ 316,997	\$ 0	\$ 0	\$ 316,997
Construction in progress	0	11,918	0	11,918
Total capital assets not being depreciated:	316,997	11,918	0	328,915
Capital assets being depreciated:				
Water system	4,183,888	19,160	0	4,203,048
Sewer system	8,169,782	16,519	0	8,186,301
Buildings	3,871,482	15,666	0	3,887,148
Machinery and equipment	1,003,135	0	0	1,003,135
Total capital assets being depreciated	17,228,287	51,345	0	17,279,632
Less accumulated depreciation for:				
Water system	610,297	91,306	0	701,603
Sewer system	1,664,231	164,341	0	1,828,572
Buildings	170,130	81,435	0	251,565
Machinery and equipment	250,138	59,665	0	309,803
	2,694,796	396,747	0	3,091,543
Net capital assets being depreciated	14,533,491	(345,402)	0	14,188,089
Business-type activities, total capital assets, net of depreciation	\$ 14,850,488	\$ (333,484)	\$ 0	\$ 14,517,004

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 4,684
Public safety	97,861
Culture and recreation	15,968
Public service	<u>70,494</u>
Total governmental activities depreciation expense	<u>\$ 189,007</u>
Business-type activities:	
Sewer	\$ 255,323
Water	<u>141,424</u>
Total business-type activities depreciation expense	<u>\$ 396,747</u>

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

A summary of transfers made during the year ended December 31, 2005 are as follows:

	<u>Due From</u>	<u>Due To</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 1,341	\$ 0	\$ 0	\$ 208,993
Library Fund	0	1341	42,993	0
Fire Fund	0	0	0	70,017
Local Improvement Fund	0	0	166,000	130,000
Major Street Fund	0	0	0	26,713
Local Street Fund	0	0	156,713	0
Building Authority Fund	0	0	49,751	0
Sewer Fund	0	0	20,266	0
	<u>\$ 1,341</u>	<u>\$ 1,341</u>	<u>\$ 435,723</u>	<u>\$ 435,723</u>

The General Fund transferred \$166,000 to the Local Improvement Fund and \$42,993 to the Library Fund to cover operational costs

The Fire Fund transferred \$20,266 to the Sewer Fund for road improvements and \$49,353 to the Building Authority Fund to cover operational costs.

The Major Street Fund transferred \$26,713 to the Local Streets Fund and to cover operational costs.

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (CONTINUED)**

The Local Improvement Fund transferred \$130,000 to the Local Street Fund to cover cost for improving the local streets.

The Library Operating Fund has recorded a due to the General Fund in the amount of \$1,341 as of December 31, 2005. The payable represents unreimbursed personnel costs.

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 6- LONG-TERM DEBT**

A summary of the City's long term debt is as follows:

**Government Activities**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
2002 Building Authority Bonds, due in annual installments of \$1,000 to \$25,000 through December 1, 2031, with an interest rate of 4.625%.	\$ 773,000	\$ (14,000)	\$ 759,000

**Business-Type Activities**

1984 Water System Revenue Bonds, due in annual installments of \$5,000 to \$30,000 through December 31, 2020 with an interest rate of 5.0%.	\$ 345,000	\$ (15,000)	\$ 330,000
2002 Water Supply System Junior Lien Revenue bonds, due in annual installments of \$1,000 to \$94,000 through July 1, 2040 with an interest rate of 4.5%.	1,723,000	(18,000)	1,705,000
1994 Sewer Disposal System Revenue Bonds, series 92-04, due in annual installments of \$1,000 to \$12,000 through September 1, 2033 with an interest rate of 5.0%.	1,052,000	(17,000)	1,035,000
1994 Sewer Disposal System Revenue Bonds, series 92-04, due in annual installments of \$1,000 to \$12,000 through September 1, 2033 with an interest rate of 5.0%.	185,000	(3,000)	182,000

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 6- LONG-TERM DEBT (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increase (Decrease)</u>	<u>Ending Balance</u>
<b><u>Business-Type Activities (Continued)</u></b>			
2002 Sewage Disposal System Junior Lien Revenue Bonds, due in annual installments of \$3,000 to \$105,000 through September 1, 2041 with an interest rate of 4.5%.	<u>\$ 1,956,000</u>	<u>\$ (22,000)</u>	<u>\$ 1,934,000</u>
Total Business-Type Activities	<u><u>\$ 5,261,000</u></u>	<u><u>\$ (75,000)</u></u>	<u><u>\$ 5,186,000</u></u>

Long-term obligation activity can be summarized as follows:

	Balance January 1, 2005	Additions	Retirements and Payments	Balance December 31, 2005	Amount Due Within One Year
<b><u>Governmental Activities</u></b>					
General Obligation Bonds	<u>\$ 773,000</u>	<u>\$ 0</u>	<u>\$ 14,000</u>	<u>\$ 759,000</u>	<u>\$ 15,000</u>
<b><u>Business-Type Activities</u></b>					
Revenue Bonds	<u><u>\$5,261,000</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 75,000</u></u>	<u><u>\$5,186,000</u></u>	<u><u>\$ 77,000</u></u>

**CITY OF HARRISON**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2005**

**NOTE 6- LONG-TERM DEBT (CONTINUED)**

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ended December 31	Government-Type Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 15,000	35,104	77,000	240,678
2007	16,000	34,410	79,000	237,010
2008	16,000	33,670	83,000	233,253
2009	17,000	32,930	90,000	229,305
2010	18,000	32,144	96,000	225,018
2011-2015	105,000	147,307	542,000	1,053,376
2016-2020	135,000	120,250	679,000	911,621
2021-2025	170,000	86,073	685,000	750,136
2026-2030	217,000	42,734	864,000	572,646
2031-2035	50,000	2,312	921,000	352,988
2036-2040	0	0	871,000	156,623
2041	0	0	199,000	6,840
Total	<u>\$ 759,000</u>	<u>\$ 566,934</u>	<u>\$ 5,186,000</u>	<u>\$ 4,969,494</u>

**NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS**

**Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)**

**Plan Description** – The City of Harrison participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City of Harrison. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling 1-800-767-6377.

**Funding Policy** – The obligation to contribute to and maintain the system for these employees was established by negotiations with the City of Harrison's competitive bargaining units and requires a contribution from the employees of 3% of their annual earnings to the System. The City is required to contribute based on an actuarially determined rate.

**Annual Pension Costs** – For year ended December 31, 2005, the City of Harrison's annual pension cost of \$48,248 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal actuarial cost method. Significant actuarial assumptions used include: (i) an 8% investment rate of return; (ii) projected salary increase of 4.5% per year, and (iii) 2.5% per year cost of living adjustments. These assumptions were determined using techniques that smooth the effects of short-term volatility over a four-year period.



CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 7 – EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS (CONTINUED)**

Three year trend information as of December 31, 2005 follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Annual pension cost	\$ 39,427	\$ 46,762	\$ 48,248
Percentage of APC contributed	100%	100%	100%
Net pension obligation	0	0	0
Actuarial value of assets	1,309,541	1,400,770	1,491,275
Actuarial accrued liability	1,605,753	1,767,485	1,859,516
Unfunded AAL	296,212	366,715	368,241
Funded ration	82%	79%	80%
Covered payroll	416,780	417,517	430,790
UAL as a percentage of covered payroll	72%	88%	89%

**NOTE 8 – POST-EMPLOYMENT BENEFITS**

The City has elected to provide post-employment health benefits to certain retirees and their beneficiaries. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. The benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. Currently, two retirees are eligible for post-employment health benefits. For the fiscal year ended December 31, 2005, the City made payments for post-employment health benefit premiums of \$12,541.

**NOTE 9 – OPERATING LEASE**

The City leases office and storage space in its fire station to the Department of Natural Resources under an operating lease that expires in June 2013. Annual rent is \$30,815 and the lessee has two five-year options. Minimum future rentals are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 30,815
2007	30,815
2008	30,815
2009	30,815
2010	30,815
Thereafter	77,038
	<u>\$231,113</u>

CITY OF HARRISON  
Notes to Financial Statements  
For the Year Ended December 31, 2005

**NOTE 10 – RISK MANAGEMENT**

The City is exposed to various risks of loss related to property loss, torts and errors and omissions. The City has purchased commercial insurance for claims relating to general liability and property/casualty claims. Settled claims relating to the commercial insurance did not exceed the amount of insurance coverage in any of the past three years.

**NOTE 11– NET ASSETS - RESTRICTED**

As required by various bond ordinances, the City has established and funded reserves for bond retirement of \$197,500 for the Water Fund and \$288,000 for the Sewer Fund

Required Supplemental Information

CITY OF HARRISON  
Required Supplemental Information  
Budgetary Comparison Schedule - General Fund  
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 160,000	\$ 160,000	\$ 192,916	\$ 32,916
Property taxes	623,678	623,678	651,433	27,755
Cable franchise	8,300	8,300	10,842	2,542
Reimbursements from street funds	46,000	46,000	68,669	22,669
Charges for services	6,900	6,900	9,746	2,846
Miscellaneous	5,400	5,400	6,802	1,402
Interest	1,800	1,800	12,988	11,188
Sales	1,000	1,000	2,600	1,600
Total revenues	853,078	853,078	955,996	102,918
<u>Expenditures</u>				
General government	377,239	376,739	297,248	79,491
Public safety	189,120	187,217	186,717	500
Public service	208,850	214,850	175,639	39,211
Recreation and cultural	79,375	85,375	69,264	16,111
Contingency	64,977	64,718	0	64,718
Total expenditures	919,561	928,899	728,868	200,031
Excess (deficiency) of revenues over expenditures	(66,483)	(75,821)	227,128	302,949
<u>Other Financing (Uses)</u>				
Operating transfers out	(100,993)	(208,993)	(208,993)	0
Excess (deficiency) of revenues over expenditures and other financing uses	(167,476)	(284,814)	18,135	302,949
Fund balance - beginning of year	586,543	586,543	586,543	0
Fund balance - end of year	\$ 419,067	\$ 301,729	\$ 604,678	\$ 302,949

CITY OF HARRISON  
Required Supplemental Information  
Budgetary Comparison Schedule - Library Operating Fund  
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 11,706	\$ 11,666	\$ 11,666	\$ 0
Charges for services	48,843	48,843	48,843	0
Miscellaneous	78,502	86,277	86,129	(148)
Interest	600	600	2,444	1,844
Total revenues	139,651	147,386	149,082	1,696
<u>Expenditures</u>				
Recreation and cultural	181,431	183,231	196,512	(13,281)
Excess (deficiency) of revenues over expenditures	(41,780)	(35,845)	(47,430)	(11,585)
<u>Other Financing Sources</u>				
Operating transfer in	41,103	42,993	42,993	0
Excess (deficiency) of revenues and other financing sources over expenditures	(677)	7,148	(4,437)	(11,585)
Fund balance - beginning of year	69,386	69,386	69,386	0
Fund balance - end of year	<u>\$ 68,709</u>	<u>\$ 76,534</u>	<u>\$ 64,949</u>	<u>\$ (11,585)</u>

CITY OF HARRISON  
Required Supplemental Information  
Budgetary Comparison Schedule - Local Street Fund  
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
State shared revenue	\$ 55,000	\$ 55,000	\$ 58,439	\$ 3,439
Miscellaneous	1,500	1,500	6,358	4,858
Interest	100	100	1,161	1,061
Total revenues	56,600	56,600	65,958	9,358
<u>Expenditures</u>				
Highways and streets	300,382	322,344	288,912	33,432
Excess (deficiency) of revenues over expenditures	(243,782)	(265,744)	(222,954)	42,790
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	187,750	173,750	156,713	(17,037)
Excess (deficiency) of revenues over expenditures and other financing uses	(56,032)	(91,994)	(66,241)	25,753
Fund balance - beginning of year	91,994	91,994	91,994	0
Fund balance - end of year	<u>\$ 35,962</u>	<u>\$ 0</u>	<u>\$ 25,753</u>	<u>\$ 25,753</u>

CITY OF HARRISON  
 Required Supplemental Information  
 Budgetary Comparison Schedule - Local Improvement Fund  
For the Year Ended December 31, 2005

	Original Budget	Final Amended Budget	Actual	Variances with Final Budget Favorable (Unfavorable)
<u>Revenues</u>				
Miscellaneous	\$ 0	\$ 0	\$ 517	\$ 517
Interest	2,000	2,000	13,399	11,399
Total revenues	2,000	2,000	13,916	11,916
<u>Expenditures</u>				
Public service	653,265	790,914	298,911	492,003
Excess (deficiency) of revenues over expenditures	(651,265)	(788,914)	(284,995)	503,919
<u>Other Financing Sources (Uses)</u>				
Transfers in	88,000	166,000	166,000	0
Transfers out	(164,000)	(150,000)	(130,000)	20,000
Total other financing sources (uses)	(76,000)	16,000	36,000	20,000
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(727,265)	(772,914)	(248,995)	523,919
Fund balance - beginning of year	772,914	772,914	772,914	0
Fund balance - end of year	\$ 45,649	\$ 0	\$ 523,919	\$ 523,919

Other Supplemental Information



CITY OF HARRISON  
Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2005

	Major Streets Fund	Fire Fund	Budd Lake Improvement	Building Authority Fund	Totals
<u>Assets</u>					
Cash and investments	\$ 153,020	\$ 119,897	\$ 48,586	\$ 3,872	\$ 325,375
Taxes receivable	0	0	19,279	0	19,279
Total Assets	<u>\$ 153,020</u>	<u>\$ 119,897</u>	<u>\$ 67,865</u>	<u>\$ 3,872</u>	<u>\$ 344,654</u>
<u>Fund Balance</u>					
Unreserved	<u>\$ 153,020</u>	<u>\$ 119,897</u>	<u>\$ 67,865</u>	<u>\$ 3,872</u>	<u>\$ 344,654</u>

CITY OF HARRISON  
Other Supplemental Information  
Combining Statement of Revenues, Expenditures and Changes  
in Fund Balance - Nonmajor Governmental Funds  
For the Year Ended December 31, 2005

	Major Streets Fund	Fire Fund	Budd Lake Improvement	Building Authority Fund	Totals
<u>Revenues</u>					
State shared revenue	\$ 106,851	\$ 0	\$ 0	\$ 0	\$ 106,851
Charges for services	0	236,621	0	0	236,621
Taxes	0	0	40,700	0	40,700
Interest	3,664	4,075	218	18	7,975
Other	5,796	38,065	0	0	43,861
Total revenues	116,311	278,761	40,918	18	436,008
<u>Expenditures</u>					
Public service	0	0	28,221	744	28,965
Public safety	0	98,491	0	0	98,491
Highways and streets	97,008	0	0	0	97,008
Debt service:					
Principal	0	0	0	14,000	14,000
Interest	0	0	0	35,751	35,751
Total expenditures	97,008	98,491	28,221	50,495	274,215
Excess (deficiency) of revenues over expenditures	19,303	180,270	12,697	(50,477)	161,793
<u>Other Financing Sources (Uses)</u>					
Transfers in	0	0	0	49,751	49,751
Transfers (out)	(26,713)	(70,017)	0	0	(96,730)
Total other financing sources (uses)	(26,713)	(70,017)	0	49,751	(46,979)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(7,410)	110,253	12,697	(726)	114,814
Fund balance - beginning of year	160,430	9,644	55,168	4,598	229,840
Fund balance - end of year	\$ 153,020	\$ 119,897	\$ 67,865	\$ 3,872	\$ 344,654

CITY OF HARRISON  
City of Harrison Water Extension Project  
Selected Information  
For the Year Ended December 31, 2005

1. A separate report on internal control can be found on page 36.
2. The accounting records and methods were satisfactorily maintained.
3. Proper physical controls over assets were exercised.
4. Deposited funds of \$261,570 are in institutions insured by the Federal Government. However, auto investment sweep accounts (formerly municipal investment fund accounts) of \$433,000 are not insured.
5. The financial records reflected in the audit are in agreement with the accounting records of the Water Supply System.
6. The aging of accounts receivable is as follows:

0 - 30 days	\$ 97
31 - 60 days	129
61 - 90 days	308
91 days and older	342
	<u>\$ 876</u>

7. The loan agreement requires the maintenance of cash reserves in the amount of \$1,000 and \$500 be deposited quarterly to the Junior Lien Bond Reserve Account and Replacement Account, respectively, until a total of \$32,000 and \$5,000 has been reached, respectively. The loan agreement also requires the maintenance of a cash reserve deposited in the Junior Lien Redemption Account for payment of principal and interest on the Bonds. A sum equal to at least  $\frac{1}{2}$  of the interest due on the next ensuing interest due date and not less than  $\frac{1}{4}$  of the principal maturing on the next ensuing principal payment date is required. The Bond Reserve Account and the Replacement Account have a balance of \$32,000 and \$5,000, respectively, as of December 31, 2005. The Junior Lien Redemption Account has a balance of \$16,500 as of December 31, 2005.
8. The City of Harrison carries the following insurance policies:
  - a. Comprehensive general liability and public officials errors and omissions, policy number MML001303121, policy amount of \$5,000,000, expiration date 1/1/06.

CITY OF HARRISON  
City of Harrison Water Extension Project  
Selected Information  
For the Year Ended December 31, 2005

- b. Property policy to cover the fixed assets of Water Supply System, policy number MML001303121, policy amount of \$1,197,155, expiration date 1/1/06.
  - c. Business auto liability, policy number MML001303121, policy amount of \$5,000,000, expiration date 1/1/06.
  - d. Fidelity bond covering city treasurer, policy number BSH-1795522, policy amount of \$60,000, expiration date 9/1/07.
9. The following is a list of the names and addresses of all members of the governing body, as appropriate, with their office and term of office for the City of Harrison City Council.

Mayor

Brook Wood	November 2006
1380 Byfield	
Harrison, MI 48625	

Council Members

Chris Damvelt	November 2006
2600 Mostetler	
Harrison, MI 48625	

James Seney	November 2006
220 E. Spruce	
Harrison, MI 48625	

Linda O'Leary	November 2006
202 N. Lake Street	
Harrison, MI 48625	

Stacey Stocking	November 2008
314 S. Second Street	
Harrison, MI 48625	

David Rowe	November 2008
209 W. Park	
Harrison, MI 48625	

Daniel Sullivan	November 2008
292 E. Pine Street	
Harrison, MI 48625	

Dates shown are term expiration dates.

10. No further information is necessary for full disclosure.



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

January 27, 2006

REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT  
OF THE FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

Members of the City Council  
City of Harrison  
Harrison, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harrison as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 27, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Harrison's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Members of the City Council  
City of Harrison  
January 27, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Harrison's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Members of the City Council, management and related regulatory agencies and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Weinlander Fitzhugh*



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

January 27, 2006

ROBERT E. LIST, CPA  
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Members of the City Council  
City of Harrison  
Harrison, Michigan

This letter is intended to inform the City Council about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the City Council.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

## **The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards**

Our audit of the financial statements of the City for the year ended December 31, 2005 was conducted in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standard*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

In accordance with *Government Auditing Standards*, we have also performed tests of controls and compliance with laws and regulations that contribute to the evidence supporting our opinion on the financial statements. However, they do not provide a basis for opining on the City's internal control or compliance with laws and regulations.

## **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

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# WEINLANDER FITZHUGH

Members of the City Council  
City of Harrison  
January 27, 2006  
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## **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments were not significant.

## **Accounting Policies and Alternative Treatments**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The District did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

## **Disagreements with Management**

We encountered no disagreements with management over the application of significant principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

## **Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

## **Major Issues Discussed with Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.





# WEINLANDER FITZHUGH

Members of the City Council  
City of Harrison  
January 27, 2006  
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## **Difficulties Encountered in Performing the Audit**

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

## **Other Comments**

### *Compensated Absences*

The City of Harrison's fringe benefit package for its employees allows them to accumulate unused sick and vacation time for use at a later date. During the audit, we noted an inconsistent tracking or accounting for this unused time for salaried staff. Presently, each employee is responsible for their own recordkeeping.

While nothing unusual came to our attention, we recommend the City adopt a uniform policy for accounting for unused sick and vacation time by salaried employees. Many organizations have their payroll department maintain a "running" schedule of unused time that includes dates, time earned, time used and cumulative balance. Employees generally report sick and vacation time used weekly, and a member of Council could review this schedule monthly or quarterly.

An up-to-date schedule will allow the City to manage the balance of unused time.

## **Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the City.

This report is intended solely for the information and use of the Members of the City Council and management and is not intended to be, and should not be, used by anyone other than the specified parties.

*Weinlander Fitzhugh*